

Message Text

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C O N F I D E N T I A L OTTAWA 06647

LIMDIS

FOR WHITE HOUSE FOR SCHLESINGER AND GOLDMAN; TREASURY FOR
ALTMAN

E.O. 11652:GDS
TAGS: ENRG, EFIN, CA
SUBJECT: ARCTIC GAS TO TRY TO GET TOGETHER WITH ALCAN

1. JULY 20 MEETING OF ARCTIC GAS CONSORTIUM DECIDED
(A) TO KEEP ORGANIZATION IN BEING WHILE SCALING DOWN
EXPENSES, AND (B) TO APPROACH ALCAN IMMEDIATELY ON THE
POSSIBILITY OF ARCTIC GAS JOINING THE ALCAN CONSORTIUM.
ARCTIC GAS WILL EMPHASIZE FINANCIAL STRENGTH AND HIGH
PRESSURE GAS TECHNOLOGY AS SELLING POINTS.

2. MEANWHILE THE EIGHT U.S. SHIPPERS INVOLVED IN ARCTIC
GAS (ALASKAN ARCTIC, NORTHERN BORDER, COLUMBIA, MICHIGAN
WISCONSIN, NATURAL GAS PIPE, NORTHERN NATURAL, TEXAS
EASTERN, AND PACIFIC LIGHTING) WILL MAKE A SEPARATE
APPROACH TO ALCAN. AT THIS STAGE, THE U.S. SHIPPERS PLAN
TO PROPOSE PARTICIPATION IN U.S. ONLY SEGMENTS OF THE
ALCAN LINE. THE MAIN CANADIAN SHIPPERS ASSOCIATED WITH
ARCTIC GAS (ALBERTA NATURAL, AND ALBERTA SOUTHERN) WILL
ALSO APPROACH ALCAN. TRANSCANADA, WHICH SO FAR HAS BEEN
UNABLE TO INCLUDE ITS CAPITAL EXPENDITURES IN GAS ARCTIC
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IN ITS RATE BASE, HESITATES TO UNDERTAKE ANY FURTHER
EXPENDITURES. MAJOR ENERGY COMPANIES ASSOCIATED WITH GAS
ARCTIC (IMPERIAL/EXXON, SHELL, GULF) APPARENTLY DO NOT
PLAN IMMEDIATE APPROACHES TO ALCAN. THEY CITE ALCAN
PUBLIC STATEMENTS THAT THEY ARE NOT WELCOME AS A REASON,
BUT PRESUMABLY B E L I E V E THAT ALCAN WILL EVENTUALLY
HAVE TO COME TO THEM.

3. FINANCE MINISTER MACDONALD AND ENERGY MINISTER GILLESPIE TELL ME THAT THE CANADIAN GOVERNMENT IS GIVING THOUGHT TO WAYS AND MEANS OF ENCOURAGING A FUSION OF THE TWO PIPELINE CONSORTIUMS, BUT THE GOVERNMENT IS UNLIKELY TO ACT UNTIL AFTER A DECISION IN PRINCIPAL IS MADE IN EARLY AUGUST. MACDONALD IS ACUTELY AWARE OF THE FINANCIAL WEAKNESS OF THE ALCAN GROUP, AND RECOGNIZES THAT EL PASO HAS A MAJOR LEAD IN FINANCEABILITY.

4. PERSONALITY FACTORS WILL ENTER IN NEGOTIATIONS BETWEEN THE TWO CONSORTIUMS, AS FOOTHILLS YUKON PRINCIPAL BLAIR IS WIDELY DISTRUSTED IN THE INDUSTRY, AND A PARTICULAR ANIMOSITY EXISTS BETWEEN BLAIR AND ARCTIC GAS PRINCIPALS. HOWEVER, LATTER PLAN TO RESIGN BY YEAR'S END.
ENDERS

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